UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

CENTRAL AFRICAN REPUBLIC

Report No. 1896

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(REDACTED)

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Report on the Audit of UNDP Central African Republic
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Central African Republic (the Office) from 13 to 28 November 2017. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);

(b) programme (quality assurance process, programme/project design and implementation, knowledge management; common humanitarian fund management);

(c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and

(d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 30 September 2017. The Office recorded programme and management expenditures of approximately $97.8 million. The last audit of the Office was conducted by OAI in 2012.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **unsatisfactory**, which means "the assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area." This rating was mainly due to significant weaknesses in the management of governance, programme, and operations activities.

Key recommendations: Total = **20**, high priority = **13**

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	2, 4, 5, 6	High
	3, 7	Medium
Reliability and integrity of financial and operational information	8, 9, 10, 11	High
Effectiveness and efficiency of operations	15	High
	14	Medium
Safeguarding of assets	12, 19	High
	20	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	16, 17	High
	1, 13, 18	Medium

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Weaknesses in the implementation of oversight and assurance mechanism (Issue 2)	The audit found weaknesses in the management of audits of nationally implemented projects that were caused by a weak oversight mechanism, and unclear roles and responsibilities in the management of assurance mechanisms. Recommendation 2: The Office should strengthen its oversight and assurance mechanism over nationally implemented projects by clarifying the roles and responsibilities in the management of assurance mechanisms, specifically by (a) following up timely on audit recommendations, and ensuring their timely implementation; and (b) ensuring that the implementation status of prior audit recommendations is independently verified by an audit firm during the Harmonized Approach to Cash Transfers (HACT) audit exercise.
Lapses in programme and project monitoring (Issue 4)	Several weaknesses were found in programme, project monitoring and reporting processes and activities. These weaknesses included the lack of a monitoring and evaluation framework, annual programme reviews not conducted, inadequate reporting to the different project boards and from the partners, lack of evidence of programme monitoring at the outcome level, and Atlas (enterprise resource planning system of UNDP) not used as a monitoring tool. Recommendation 4: The Office should improve programme monitoring by: (a) enforcing the monitoring and evaluation function by putting in place a monitoring framework and a regular monitoring mechanism at outcome level; (b) ensuring that baselines, targets and indicators are set at outcome level; and (c) systematically conducting and documenting annual reviews of its programme. Recommendation 5: The Office should enhance project monitoring by: (a) requiring project managers to systematically obtain contractual reports from project partners and draft required reports for the project board; (b) organizing annual review of projects; and (c) using Atlas as a project monitoring tool and systematically updating the risk, issue, and monitoring logs.
Weaknesses in project definition, initiation implementation and closure (Issue 5)	The audit selected eight projects under five awards representing 25 percent of 2017 project expenditures as at 30 September and totalling $9 million and found weaknesses in project definition, initiation, implementation and closure. Weaknesses included lack of assessment of implementing partners, Local Project Appraisal Committee meetings not conducted for 50 percent of selected projects, 25 percent of sampled projects did not have signed annual work plans, and lack of supporting documents for five closed projects.

Recommendation 6: The Office should improve project definition, initiation and implementation by: (a) systematically holding Local Project Appraisal Committee meetings before project implementation, and signing all work plans before starting to implement project activities; (b) assessing implementing partners' capacities before entrusting them with activities to be implemented and having all agreements signed in the appropriate format; and (c) improving project closure in Atlas by keeping record of all required supporting documents.

Weaknesses in the Managing Agent function (Issue 6)

Weaknesses were noted in the Office's role as Managing Agent of the Common Humanitarian Fund. These included: gaps in the NGO capacity assessment process; changes in the NGO risk ratings without justification; frequency of spot checks not conducted in accordance with the HACT Framework; and weaknesses on the adequacy, completeness and reliability of the supporting documents provided by the NGOs leading to errors and irregularities not detected by the Office. Two NGOs presented the most concerns with regards to the weaknesses noted. The audit team reviewed 50 percent ($161,000) and 35 percent ($183,965) of these two NGO expenditures and noted that 30 and 32 of their respective expenses were inadequate.

Recommendation 8: The Office should strengthen its oversight of the Common Humanitarian Fund by: (a) establishing a capacity assessment framework to allow for the proactive identification, monitoring, and response to risks; (b) establishing a mechanism to identify and adjust NGO risk ratings based on the results of the capacity assessments; and (c) conducting spot checks in accordance with the plan and HACT Framework requirements.

Recommendation 9: The Office should strengthen oversight of fund transfers to NGOs by: (a) establishing a mechanism to review NGO financial transactions prior to any transfer of funds – the extent of the review should be based on NGO risk ratings; and (b) requesting NGOs to provide the necessary justifications for the transactions not adequately documented. Due consideration to discontinue the working relationships with the two NGOs of concern should be envisaged, if no satisfactory explanation is received.

Lapses in monitoring and recording of advances to implementing partners (Issue 7)

The Office recorded 234 payments as advances to implementing partners amounting to $25.5 million during the audit period. A review of the management of the advances received by 11 implementing partners within the framework of the Common Humanitarian Fund disclosed several weaknesses. These included: inaccurate recording of expenses, liquidation against unpaid vouchers, and long outstanding unliquidated advances.

Recommendation 10: The Office should strengthen its oversight and recording of advances to implementing partners by: (a) recording expenses to the appropriate accounting period and only after receiving, verifying and accepting the supporting documents; (b) ensuring that vouchers are paid prior to recording their corresponding advance; and (c) monitoring closely

	and actively engaging with the implementing partners on long outstanding advances not reconciled within six months.
Weaknesses in financial management, oversight and controls (Issue 8)	The audit selected a sample of 51 vouchers worth $6.4 million for review, and noted the following weaknesses related to improper recording of financial transactions: non-adherence to the Project Cash Advance requirement, and inadequate disbursement processes, Direct Project Costing and salary advances. Recommendation 11: The Office should strengthen financial management by: (a) providing remedial training to finance staff and ensuring that they obtain the required certification, as well as providing adequate oversight and controls of financial operations; (b) submitting missing supporting documents related to the payment vouchers amounting to $801,405 to the audit team for review; and (c) implementing the Direct Project Costing for all projects and programmes in the implementation of a development activity or service provided by UNDP.
Weaknesses in assets management (Issue 9)	The audit team noted that the number of vehicles used and controlled by the Office did not reconcile with the number recorded in either the Atlas asset registry, or in the certified annual physical year end count. Moreover, at the time of the audit, except for one project, there was no annual physical year end count. Recommendation 12: The Office should improve asset management by: (a) maintaining accurate and up-to-date records of assets in Atlas including establishing a mechanism to ensure that assets are properly tagged, recorded and updated with the names of custodians and asset IDs matching the Atlas records; (b) complying, with the policies related to missing/stolen assets which require the Office to conduct a fact finding review for assets over $1,000; and (c) ensuring that all assets including those located within the projects are physically verified and that a complete and accurate list of custodial items is maintained.
Procurement functions not efficiently set up (Issue 12)	A review of the procurement functions and operating procedures highlighted the lack of an effective and efficient procurement function. Weaknesses were noted in procurement planning, sourcing, risk management and standard operations procedures (SOPs). Recommendation 15: The Office should strengthen its procurement functions by: (a) completing a consolidated procurement plan taking into account requisitions from projects, identifying economy of scale, and using the plan as a strategic tool to timely initiate procurement activities; (b) developing effective sourcing practices (rosters, Long Term Agreements, pre-qualification of suppliers and consultants) and risk management based on the outcome of the consolidated procurement plan; and (c) centralizing procurement activities, developing SOPs for procurement processes, and clarifying roles and responsibilities.

Weaknesses in procurement oversight and vendor management (Issue 13)	There was ineffective oversight over procurement practices which led to commitments totalling $2.7 million contracted without advice from review committees, procurement cases not submitted to the relevant committees and weaknesses in oversight exercised by the Contracts, Assets and Procurement Committee (CAP) in reviewing procurement cases. Furthermore, 18 out of 28 randomly sampled vendors, which received payments from the Office during the audit period, did not have any supporting documentation such as a signed standard vendor form or evidence of a contractual relationship to validate their legitimate existence and substantiate their creation in Atlas. Recommendation 16: The Office should improve its oversight mechanism over procurement activities by: (a) ensuring that all procurement cases are submitted to the appropriate procurement review committees for approval before awarding contracts; and (b) exercising due diligence when creating vendors in Atlas, and periodically reviewing the vendor database to ensure there are no duplicate or invalid records.
Deficiencies in contract management (Issue 14)	The review of the management of individual consultants, civil works contracts and other suppliers of goods and services disclosed shortcomings in the procurement process and adherence to UNDP Financial Regulations and Rules (Financial Rule 121.05). These included the procurement of goods and services without competition and lapses in the management of individual consultants and civil works contracts. Recommendation 17: The Office should strengthen its contract management oversight by: (a) undertaking competitive procurement processes for all procurement of goods and services above $2,500 and properly justifying any exceptions; (b) properly justifying adherence to Financial Rule121.05 when recruiting individual consultants; and (c) making civil works payments based on valid contracts and ensuring bank guaranties are obtained for advance payments to the suppliers, and undertaking suppliers' evaluation at the completion of the civil works.
[redacted]	[redacted]

Implementation status of previous OAI audit recommendations: Report No. 1048, 30 October 2013.

Total recommendations: 19

Implemented: 19

Management comments and action plan

The Resident Representative and UN Resident Coordinator accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Bangui, Central African Republic (the Country) comprised of 89 staff members, 38 service contract holders, and 22 United Nations Volunteers at the time of the audit. The Programmatic Framework, which replaced the Country Programme Document, focused on the following areas: (a) support for restoring and stabilization of communities; and (b) support for the transition in the Central African Republic. The Office had 157 ongoing projects.

II. Audit results

OAI made 13 recommendations ranked high (critical) and 7 recommendations ranked medium (important) priority. Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendations, arranged according to significance:

(a) Strengthen oversight of the Common Humanitarian Fund (Recommendation 8).
(b) Strengthen oversight of fund transfers to NGOs (Recommendation 9).
(c) Strengthen the procurement functions (Recommendation 15).
(d) Improve oversight mechanism over procurement activities (Recommendation 16).
(e) Improve programme monitoring (Recommendation 4).
(f) Strengthen oversight and assurance mechanisms over nationally implemented projects (Recommendation 2).
(g) Enhance project monitoring (Recommendation 5).
(h) Improve project definition, initiation and implementation (Recommendation 6).
(i) Strengthen oversight and recording of advances to implementing partners (Recommendation 10).
(j) Strengthen financial management (Recommendation 11).
(k) Improve asset management (Recommendation 12).
(l) Strengthen contract management and adherence to Financial Rule121.05 in the procurement of individual consultants (Recommendation 17).
(m) Improve staff premises and security (Recommendation 19).

Medium priority recommendations, arranged according to significance:

(a) Strengthen the project oversight (Recommendation 7).
(b) Ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' relating to staff mandatory trainings (Recommendation 1).
(c) Enforce the resource mobilization strategy and recover arrears of GLOC (Recommendation 3).
(d) Strengthen the fuel and vehicle management (Recommendation 13).
(e) Strengthen the management of travel (Recommendation 14).
(f) Enhance controls when paying danger pay allowances and salary advances (Recommendation 18).
(g) Improve the management of the Resident Coordinator's Office budget (Recommendation 20).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1 Low completion rate of UNDP mandatory training courses

According to the UNDP training policy, mandatory training courses are necessary tools to ensure that staff and managers understand the various policies, regulations as well as the goals and objectives of the organization. All staff members should complete the mandatory courses and obtain their certificates of completion no later than six months after commencing duties.

At the time of the audit, there were staff members who had not completed the UNDP mandatory training courses in due time, as shown below:

- 31 percent had not completed the Ethics and Integrity at UNDP course;
- 45 percent had not completed the Legal Framework course;
- 41 percent had not completed the Prevention of Harassment course;
- 36 percent had not completed the Gender Journey course;
- 74 percent had not completed the Advanced Security in the Field course; and
- 39 percent had not completed the Basic Security in the Field course.

In addition, the audit found nine expired security training certificates. The Office explained that completion rates were low due to weak internet connections and the inability of the staff to access the learning platform. However, at the time of the audit, no management actions had been taken to overcome these challenges.

Not completing mandatory training courses may lead to staff members not being aware of important policies that are relevant to their roles and responsibilities.

Priority Medium (Important)

Recommendation 1:

The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' relating to mandatory trainings by planning for the completion of mandatory courses in a timely manner.

Management action plan:

The Office takes note of the above recommendation and will do the following:

- develop a schedule for the follow-up and finalization of the mandatory courses;
- establish a circular to staff instructing that they dedicate 5 percent of working time to training; and
- include mandatory training as a key result of the performance management and development learning plan.

Estimated completion date: December 2018

2. Corporate Oversight and Assurance

Issue 2 Weaknesses in the implementation of oversight and assurance mechanism

The 'UNDP Programme and Operations Policies and Procedures' require offices to conduct and follow up audits of nationally implemented or NGO implemented projects annually. Audits that result in a modified opinion (i.e., qualified, disclaimer, or adverse opinion) must be audited again the following year.

The following weaknesses were found in the management of audits of nationally implemented projects:

(a) Unsatisfactory results not addressed: Five unsatisfactory audits showed that the Office had not taken actions to address their root causes, such as improving the financial management of the projects or strengthening the capacity of the implementing partners.

(b) Audit recommendations not timely implemented: Twenty-three high risk audit observations from FY2015 audits were not followed. Seventeen audit recommendations from the FY2016 audits had not been implemented. These were aimed at addressing deficiencies in internal controls and financial management.

(c) Project outputs with modified opinion not followed up: Three project outputs (Nos. 84548, 84550, and 90647) received qualified audit opinions during the FY2015 audit exercise due to absence of supporting documentation and incorrect recording of expenses amounting to $378,000. The implementation status of the audit recommendations was not independently verified by an audit firm during the FY2016 HACT audit exercise.

These issues were mainly caused by a weak oversight mechanism, and unclear roles and responsibilities in the management of assurance mechanisms.

Weaknesses in the implementation of the organization's assurance mechanism may have a negative impact on UNDP's financial statements.

Priority	High (Critical)

Recommendation 2:

The Office should strengthen its oversight and assurance mechanism over nationally implemented projects by clarifying the roles and responsibilities in the management of assurance mechanisms, specifically by:

(a) following up timely on audit recommendations, and ensuring their timely implementation; and
(b) ensuring that the status of prior audit recommendations is independently verified by an audit firm during the Harmonized Approach to Cash Transfers audit exercise.

Management action plan:

The Office agrees with the audit recommendation, and plans to establish an Oversight Unit covering programmatic and financial assurance mechanisms. More specifically, it will:

(a) set up financial monitoring tools and provide training to staff, project managers, and implementing partners;
(b) design a matrix for monitoring the implementation of audit recommendations; and
(c) the 2017 audit plan has already taken into account the projects with a modified audit opinion, and effort will be perpetuated by ensuring that any project with a modified audit opinion in the FY2017 audits is included in the 2018 audit plan.

Estimated completion date: January 2019

Issue 3 Weaknesses in resource mobilization strategy and pipeline management

The financial sustainability of UNDP Country Offices depends on their ability to mobilize resources and develop partnerships. The 'UNDP Programme and Operations Policies and Procedures' require Country Offices to establish an effective partnership and resource mobilization strategy and action plan. In accordance with the provisions of the Standard Basic Assistance Agreements that govern UNDP operations in programme countries, host governments are expected to contribute towards the costs of Country Offices.

In addition, according to UNDP regulations and rules, pipeline management is the totality of planned programmes, projects, and initiatives that UNDP units/offices are expected to pursue within a foreseeable time in the future.

Weaknesses in resource mobilization strategy

- The Office did not establish a comprehensive resource mobilization strategy for potential donors to ensure sufficient non-core contributions were received.

- Since 2008, the Office had not received Government Contribution to Local Office costs amounting to $1.5 million. The Office sent reminders to the national counterpart for recovery purposes. The Government indicated that it would make a payment in 2018.

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Weaknesses in pipeline management

- At the time of the audit, there was no adequate pipeline in the Office. For instance, for the years 2015 to 2017, the pipeline module showed a cumulative amount of $1.9 million only. The Office explained that this was due to the fact that in August 2017, resources that used to be reflected in the pipeline (around $10 million) had been mobilized, hence its reduction. The Office further added that many projects existed outside the pipeline and needed to be included. However, the projects were not shared with the audit team, and the Office could not demonstrate donors' strong commitment to participate in the said projects.

- Project Output Nos. 99495 and 102914, related to assistance to the Special Criminal Court Project, was not able to mobilize $5 million at the end of 2017. Subsequent to the audit field work, the European Union expressed interest in funding the gap . Further, Project No. 97371 had a funding gap of $0.9 million out of a budget of $5 million. The Office explained that this gap was related to the local development component of the project, which they expected to fill in the framework of a local development programme. However, at the time of the audit, there was no evidence of donors' strong commitment to participate in the said programme.

Not implementing the resource mobilization strategy and not maintaining an updated pipeline may prevent the Office from mobilizing required resources. This may impact the achievement of planned activities and in the long run affect the organization's reputation.

Priority	Medium (Important)
Recommendation 3: The Office should enforce the resource mobilization strategy and recover arrears of GLOC by: (a) adopting a customized approach towards traditional and non-traditional donors and pursuing discussions with the Government for the recovery of Government Contribution to Local Office costs; (b) reinforcing staff members accountability on resource mobilization and implementing actions planned in the resource mobilization strategy; (c) maintaining a complete pipeline of projects and intensifying resource mobilization actions to fill project funding gaps.	
Management action plan: The Office takes notes of the recommendation and will: (a) finalize the resource mobilization strategy and related action plan; (b) include the cost of premises as in-kind contributions and send a reminder to the Government for the cash payment of GLOC; (c) include objectives related to resources mobilization in programme officers' performance plan; and (d) update the pipeline and monitor it at each programme meeting. **Estimated completion date:** June 2018	

B. Programme

1. Project Design and Implementation

Issue 4 Lapses in programme and project monitoring

Monitoring is a continuous management function that provides decision makers with regular feedback on the consistencies or discrepancies between planned and actual results. All UNDP programming activities are required to adhere to monitoring standards.

At the project level, the 'UNDP Programme and Operations Policies and Procedures' provide guidance on monitoring activities to undertake during the project implementation stage. OAI noted weaknesses in the Office's programme and project monitoring, as described below:

(a) Sub-optimal monitoring and evaluation function

- The Office did not have a monitoring and evaluation framework, as the three components of such a framework (i.e., narrative, resources and results framework, and planning matrix for monitoring and evaluation) were missing.
- No programme monitoring at the outcome level with clear baselines, targets and indicators.
- No annual review of its programme.
- Atlas was not used as a project monitoring tool. In three out of five awards reviewed, Atlas risk, issue, and monitoring logs were not updated regularly.

(b) Inadequate projects monitoring

The audit selected a sample of 8 out of 64 ongoing projects in Atlas and noted:

- For four projects, no annual reviews were conducted.
- For five projects, no quarterly reports were drafted.

(c) Insufficient follow up with implementing partners on non-compliance with reporting requirements

- For one project, seven NGOs were expected to submit monthly, quarterly and annual reports. However, only two reports from two NGOs were available.
- One project was required to submit monthly reports. However, these reports were not made available to the audit team. For two responsible parties, quarterly thematic reports were not available.
- For one project, quarterly cumulative financial reports were not available.

(d) Incomplete project monitoring and evaluation framework

- In all eight cases reviewed, the planning matrix for monitoring and evaluation was missing. This planning matrix ties several elements such as expected results, indicators, monitoring and evaluation event.

The weaknesses noted were mainly due to lack of capacities in the Office and to a weak programming framework. Inadequate monitoring hinders the assessment of programme and project results.

Priority	High (critical)

Recommendation 4:

The Office should improve programme monitoring by:

(a) enforcing the monitoring and evaluation function by putting in place a monitoring framework and a regular monitoring mechanism at the outcome level;
(b) ensuring that baselines, targets and indicators are set at the outcome level; and
(c) systematically conducting and documenting annual reviews of its programme.

Management action plan: The Office agreed with the recommendation and will take the following actions: (a) establish an Oversight Unit which will draft and monitor the Office's monitoring and evaluation plan, and develop tools to follow up on the reporting at the outcome level; and (b) organize annual reviews of its programme before the end of each year as required by the Country Programme Document monitoring mechanisms. **Estimated completion date**: December 2018

Priority	High (Critical)
Recommendation 5: The Office should enhance project monitoring by: (a) requiring project managers to systematically obtain contractual reports from project partners and draft required reports for the project board; (b) organizing annual review of projects; and (c) using Atlas as a project monitoring tool and systematically updating the risk, issue, and monitoring logs.	
Management action plan: The Office will undertake the following corrective actions: (a) implement a dashboard to monitor (i) report submission to donors as per agreements signed, and (ii) follow up on reports to be submitted by implementing partners and hold steering committee meetings for each pillar of the programme at least once a year; (b) organize training sessions on the efficient use of the Atlas project management module; and (c) ascertain whether Atlas logs are updated on a quarterly basis. **Estimated completion date:** September 2018	

Issue 5 Weaknesses in project definition, initiation and implementation

Projects are key as to achieving the outcome intended by the programme, controls over these projects are needed to ensure this. These controls over projects life span and described in 'UNDP Programme and Operations Policies and Procedures' ensure that these are approved, can deliver, have clear goals, justify resources, identify deviations from plans, report on performance and are closed correctly. Projects managed by NGOs as responsible parties should be formalized through the signing of a Responsible Party Agreement.

The audit selected eight projects representing 25 percent of project expenditures as at 30 September 2017 totalling $9 million for detailed review and noted the following:

- Four projects were not submitted to the Local Project Appraisal Committee for review and approval before implementation.

- For three projects there was no evidence that an assessment of implementing partners was carried out prior to entrusting them with implementation activities. The Office signed contracts with implementing partners totalling approximately $3.31 million for the three projects.

  In 2016, external auditors issued a qualified audit opinion for one project due to unjustified expenses for a total amount of $326,844. The auditors also issued seven recommendations, of which five were high risk.

- <u>Exceptions were noted in financial management as illustrated below:</u>

  - The purchase of equipment amounting to $100,000 for the Office was pre-financed using funds from Project No. 94730. As of November 2017, an amount of $15,627 was yet to be reimbursed to the project.

  - For one project, contributions amounting to $696,662 had not yet been transferred to another project.

  - For one project, an advance of $4,692 was liquidated by the Office without adequate and complete justification. The inadequacies were not detected by the Office until flagged by the audit.

  - Despite numerous requests, the Office did not provide the audit team with the analysis of account 51035 (transfers to/from funds/donors) with a balance of $1,173,144 as at 30 September 2017 and account 51040 (refunds to donors) with a balance of $228,406. Likewise, six payments to NGOs by Project No. 89429, totalling $681,070 were selected for further testing. However, the Office did not share related supporting documents. Therefore, the audit was not in a position to ascertain accuracy and reliability of related transactions.

- Annual work plans were not signed for two projects. Therefore, it was not clear whether activities implemented were agreed upon with all stakeholders, endorsed and signed by management.

- For five closed projects, only the signed project closure checklist was available. In two instances, the Office signed a note to file explaining that the documentation could not be found because the project dated back to 2004. For the three remaining projects, no explanation was provided.

- For one project, the Office contracted seven NGOs overseeing project activities using the Project Cooperation Agreement template instead of the Responsible Party Agreement.

The weaknesses noted were mainly due to a lack of oversight over project lifecycle management.

Weaknesses in project definition, initiation and implementation, might result in the ineffective implementation of projects.

Priority	High (Critical)

Recommendation 6:

The Office should improve project definition, initiation and implementation by:

(a) systematically holding Local Project Appraisal Committee meetings before project implementation, and signing all work plans before starting to implement project activities;
(b) assessing implementing partners' capacities before entrusting them with activities to be implemented and having all agreements signed in the appropriate format; and
(c) improving project closure in Atlas by keeping record of all required supporting documents.

Management action plan:

The Office will:

(a) hold systematic Local Project Appraisal Committee meetings for all new projects, and annual work plans will be signed at the beginning of the year for all ongoing projects and before starting activities for new projects;
(b) recruit a firm for the micro-assessment of all potential partners following the 'UNDP Programme and Operations Policies and Procedures'; and
(c) comply with guidelines and tools for projects closure.

Estimated completion date: September 2018

Priority	Medium (Important)

Recommendation 7:

The Office should improve the financial management of projects by:

(a) conducting a regular review of transactions to ensure that they are intended for project activities only; and
(b) improving the record keeping system to justify all transactions and regularizing all exceptions noted by the audit.

Management action plan:

The Office will:

(a) require project managers to conduct quarterly reviews of expenditures and certify quarterly Combined Delivery Reports prior to the signature of annual Combined Delivery Reports by the Office's management (direct implementation) or implementing partners (national implementation); and
(b) at the level of the Finance Unit, systematize the filing of vouchers and implement electronic archiving starting in January 2018.

Estimated completion date: September 2018

2. Common Humanitarian Fund

The Office assumes the role of Managing Agent of the Common Humanitarian Fund to NGOs and is responsible for the oversight of the entire funding cycle to the NGOs as well the capacity development of non-governmental partners. It monitors the compliance of NGO projects with the Harmonized Approach to Cash Transfers (HACT) Framework.

As Managing Agent, the Office partnered with 39 international NGOs, 22 national NGOs, and 7 UN agencies. As of January 2018, the total transfers to NGOs and expenditures were $123 million and $102.6 million, respectively.

The audit team reviewed the adequacy of the Office's role as Managing Agent and noted the following issues:

Issue 6 Weaknesses in the Managing Agent function

The UNDP Managing Agent guidelines state that a capacity assessment is required for any NGO accessing the Common Humanitarian Fund for the first time. The assessment focusses on the NGOs' (a) technical capacity; (b) leadership and managerial capacity; and (c) financial management and administrative capacity.

Missing and weak capacity assessment. Based on a sample of 12 NGOs selected for review, only 4 underwent a capacity assessment. The audit team noted that the capacity assessment process relied primarily on the interviews with the NGO without cross checking the factual evidence (i.e., confirming whether the information shared by the NGO existed, and was factual and reliable).

Change in NGOs risk rating not justified. Out of 12 implementing partners selected for review, 9 had their risk rating lowered without a micro-assessment. However, several financial audits of implementing partners resulted in an 'unsatisfactory' rating.

Low number of spot checks conducted. In 2016, out of 68 Implementing partners, 9 were assessed as very high or high risks, 22 as medium risks, and the remaining 37 as either low risk or not yet micro assessed. Only two spot checks were planned and conducted for this period The Office reported that they had limited staff capacity to conduct the spot checks.

Lack of supporting documentation. OAI selected five NGOs for review based on the high volume of expenditures and risk rating. One of the NGOs was selected due to an allegation of mismanagement shared by the Office with the OAI prior to the mission. The review noted the following:

- For one NGO expenditures amounting to $80,500 (50 percent of total expenditures) it was noted that $48,300 had inadequate supporting documents.
- Another NGO expenditures amounting $64,388 (35 percent of total expenditures) it was noted that $59,000 had inadequate supporting documents.

  On 26 January 2018, OAI issued a memorandum to the Office's senior management with more detailed explanations of the control weaknesses noted involving the two before mentioned NGOs, in order for management to assess the need for further action.

The low frequency of spot checks compounded with an absence of a mechanism to review the supporting documents may result in errors and irregularities not being detected.

Priority	High (Critical)

Recommendation 8:

The Office should strengthen its oversight of the Common Humanitarian Fund by:

(a) establishing a capacity assessment framework to allow for the proactive identification, monitoring, and response to risks;
(b) establishing a mechanism to rate and adjust NGO risk ratings based on the results of the capacity assessments, audits, and spot checks; and
(c) conducting spot checks in accordance with the plan and HACT Framework requirements.

Management action plan:

The Office takes note of the recommendation. The following actions will be taken:

(a) hire an audit firm for micro evaluation and another firm for spot checks whose results will be taken into account in the allocation of humanitarian funds and for possible revisions of the level of risk and ad hoc capacity building; and
(b) establish a spot check plan based on the results of micro evaluations and follow up.

Estimated completion date: September 2018

Priority	High (Critical)

Recommendation 9:

The Office should strengthen oversight of fund transfers to NGOs by:

(a) establishing a mechanism to review NGO's financial transactions prior to any transfer of funds – the extent of the review should be based on NGO's risk rating; and
(b) requesting NGOs to provide the necessary justifications for the transactions not adequately documented. Due consideration to discontinue the working relationships with the two NGOs of concern should be envisaged, if no satisfactory explanation is received.

Management action plan:

The Office takes note of the recommendation. The following actions will be taken:

(a) on the basis of the results of the spot checks, supporting documents will be solicited for partners assessed "high risk" before payment of subsequent instalments; and
(b) discuss audit recommendations with OCHA to agree on the process to be followed for the suspension of the offending NGOs.

Estimated completion date: September 2018

Issue 7 Lapses in monitoring and recording of advances to implementing partners

National implementation advances consist of cash transferred to a national implementing partner for activities agreed upon in the annual work plans. The implementing partner is responsible for funds advanced, and must follow UNDP's policies and procedures. Specifically, offices must adequately monitor advances to implementing partners to verify the correct use of advanced funds for achieving immediate results and expected outputs, and to ensure they are liquidated timely. Expenses are only recognized when supporting documentation such as the FACE forms have been received, reviewed and validated by the Office.

The Office recorded 234 advances to implementing partners amounting to $25.5 million during the audit period. A review of the management of the advances received by 11 implementing partners within the framework of the Common Humanitarian Fund disclosed the following weaknesses:

(a) Inaccurate recording of expenses: Implementing partner expenses were recognized and booked in Atlas without the supporting documents. The following illustrative examples were noted:

- An expense amounting to $136,250 was incorrectly recorded to implementing partner/vendor #5274 in FY2016 in Atlas. This entry originated from the overbooking of an expense against an advance which had previously been liquidated in 2015. The error had not been detected and corrected by the Office at the time of the audit in November 2017.
- An expense amounting to $34,000 was recorded in Atlas to implementing partner/vendor #5308 against an advance that was previously liquidated. Only part of the error was corrected in 2016 for $16,000, leaving an overstatement of $18,000 still not corrected after 1.5 years.
- The Office recorded an expense to implementing partner/vendor #3789 amounting to $298,000 on 31 December 2016. This expense was reduced to $185,154 in March 2017. Therefore, the expense in 2016 was overstated by this amount.
- An expense (vendor #5698) amounting to $165,012 was recorded in Atlas on 31 December 2016 although the implementing partner had not yet implemented the corresponding activities. These expenses were subsequently cancelled in March 2017. The Office also processed a reversal entry in August 2016 against an expense which was recognized on 31 December 2014 for $44,623. In October 2016, the reversal entry was again cancelled by the Office.

(b) Liquidation against unpaid vouchers: On two occasions, the Office recorded expenses against vouchers which had not been paid in Atlas. The audit team further noted the liquidation of expenses against the unpaid vouchers resulting in the overstatement of the expense in Atlas of $81,778 and $73,963 (pending).

(a) Long outstanding unliquidated advances: As at November 2017, the Office had a long outstanding unreconciled advance paid to implementing partners amounting to $448,000. In addition, one implementing partner had a long outstanding balance of $31,405 since November 2014, which was unknown to the Office.

These weaknesses were caused by ineffective oversight over the accounting of expenses, and the recording of expenses without supporting documentation from the implementing partners.

Inadequate monitoring and recording of advances increases the risk that advances will not be used as intended or reported. Overstatements and understatements of expenses not timely detected could negatively impact the Office's financial statements.

Priority	High (Critical)
Recommendation 10: The Office should strengthen its oversight and recording of advances to implementing partners by: (a) recording expenses to the appropriate accounting period and only after receiving, verifying and accepting the supporting documents; (b) ensuring that vouchers are paid prior to recording their corresponding advance; and (c) monitoring closely and actively engaging with the implementing partners on long outstanding advances not reconciled within six months.	
Management action plan: The Office agrees with the audit recommendations and will take the following actions: (a) the liquidation of any HACT advance will be subject to applicable procedures while ensuring that expenditures are indeed made prior to recording the clearance of the advance in Atlas; and (b) a regular and continuous monitoring of HACT advances will be done in order to avoid the accumulation of long outstanding advances (more than six months old) of more than $100,000. **Estimated completion date:** December 2018	

C. Operations

1. Financial Resources Management

Issue 8 Weaknesses in financial management, oversight and controls

The correct use of the Chart of Accounts is critical for accurate financial management and donor reporting. The 'UNDP Programme and Operations Policies and Procedures' stipulate the correct raising of vouchers, correct use of Project Cash Advance, recording of expenses, supporting documentation and Direct Project Costing.

The Office processed 8,696 account payable vouchers for a total of $64.3 million during the audit period, of which 293 vouchers totalling $30 million related to Common Humanitarian Fund transactions.

The audit selected a sample of 51 vouchers totalling $6.4 million for review and conducted an analysis of the Office's Trial Balance and reviewed a sample of general ledger accounts and noted the following weaknesses:

(a) Incorrect recording of financial transactions

- Transactions amounting to $9.3 million for 2016 and 2017 were recorded as grants. The audit team also noted $1.7 million in the Sundry account for 2017. These were project activities and should have been allocated and recorded to the corresponding expenses accounts. The Hospitality account had expenditures of $161,000 for 2017. The review of this account disclosed that transactions amounting to $151,000 should have been recorded in the "training, Workshops and Conferences" account.

- A rental deposit amounting to $34,748 was recorded as an expense rather than recording it in a suspense or receivables account.
- The cost of a video surveillance and fire alarm system including training amounting to $26,561 was expensed while the assets costs should have been itemized and booked as assets.

(b) Non-adherence to Project Cash Advance requirement

The Office handed over two Project Cash Advances amounting to $22,181 and $119,500 without appointing a custodian who will be responsible in ensuring proper disbursements and timely liquidation of cash advance. Furthermore, these activities were beyond the two-week requirement and the Office did not seek Treasury's approval for the one above the $25,000 threshold.

(c) Control weaknesses in disbursement process

- The Office knowingly settled an expense amounting to $34,319 while acknowledging, per a note to file, that 37 percent of it was not related to the project and the remaining 63 percent was ineligible. The Office should not have recorded and approved the related transactions in Atlas.
- At the time of the fieldwork, 90 vouchers amounting to $365,450 were approved in 2016 and 2017 but were not paid. Following the audit fieldwork, 41 out of 90 vouchers were closed for a total amount of $48,734 ($24,286 in 2016 and $24,448 in 2017). As per the policy, unpaid vouchers need to be reviewed at monthly closures to determine whether there are any duplicate or old vouchers that should be closed.

(d) Missing supporting documentation

The audit team was not provided with supporting documents to justify the processing of 10 payment vouchers amounting to $801,405. Without adequate supporting documentation, the audit team could not validate these payments.

(e) Non-implementation of the Direct Project Costing

The Office did not implement the Direct Project Costing mechanism. The Office's management indicated that they had yet to approach donors to get their agreements.

The above weaknesses were mainly due to the lack of capacities of the finance team and inadequate oversight and monitoring of financial operations. None of the members of the finance team had the required certifications.

Inadequate oversight over the payment process could lead to errors and irregularities not being timely detected and addressed, and could lead to financial losses to UNDP.

Priority	High (Critical)
Recommendation 11: The Office should strengthen financial management by: (a) providing remedial training to finance staff and ensuring that they obtain the required certification, as well as providing adequate oversight and controls of financial operations;	

(b) submitting missing supporting documents related to the payment vouchers amounting to $801,405 to the audit team for review; and
(c) implementing the Direct Project Costing for all projects and programmes in the implementation of a development activity or service provided by UNDP.

Management action plan:

The Office agrees with the audit recommendations and will take the following actions:

(a) register all finance staff to UNDP's Financial Training and Certification Programme;
(b) provide the supporting documents for the indicated amount; and
(c) finalize the administrative note for the implementation of Direct Project Costing and improve cost recovery.

Estimated completion date: September 2018

OAI response:

In response to the draft report, the Office provided OAI the supporting documents relating to Recommendation 11(b). However, the review of these documents disclosed that they were incomplete. This matter will be forwarded to the OAI Investigations Section for further assessment.

Issue 9 Weaknesses in assets management

The 'UNDP Programme and Operations Policies and Procedures' require a physical count of fixed assets, including furniture, equipment and vehicles twice a year to ensure that the data in the Atlas Asset Module corresponds to the items physically located in the Office. UNDP Financial Regulations and Rules also require the maintenance of accurate and up-to-date records of asset acquisitions, receipt, and custody, and maintenance, location, adjustment and disposal transactions. In addition, all assets should be tagged to facilitate their oversight and control.

At the time of the audit, 228 assets with a total net book value of $1.4 million were in service per the Atlas registry. The audit team reviewed the asset management process and noted the following issues:

- lack of annual physical year end count (except for one project) and absence of asset transfers, asset disposals and custodial items lists; and
- the Atlas registry did not reconcile with the Office's internal list (list of vehicles used and controlled) – out of the 34 vehicles from the Office's internal list, there were 12 vehicles not recorded in Atlas.

The audit team selected a sample of 20 items from the Atlas registry for physical verification and noted that:

- Six vehicles with a total net book value of $85,764 could not be located. For three of them amounting to $40,972, the Office reported that they were transferred to implementing partners. However, transfer documents could not be provided.
- One UNDSS vehicle with a net book value of $28,849 was inappropriately capitalized as a UNDP asset.
- Two laptops and one printer for a total net book value of $2,601 could not be located. The Office had not initiated any investigation on the missing assets.

- None of assets were tagged for identification purposes.

Most of the weaknesses indicated above resulted from a lack of training and the lack of an adequate mechanism to identify and track assets owned by the Office.

The non-capitalization of the 12 vehicles above resulted in an understatement of the Office's assets and the inadequate asset management increased the risk of misuse or loss.

Priority	High (Critical)
Recommendation 12: The Office should improve asset management by: (a) maintaining accurate and up-to-date records of assets in Atlas, including establishing a mechanism to ensure that assets are properly tagged, recorded and updated with the names of custodians and asset IDs matching the Atlas records; (b) complying with the policies related to missing/stolen assets which require the Office to conduct a fact-finding inquiry for assets over $1,000; and (c) ensuring that all assets including those located within the projects are physically verified and that a complete and accurate list of custodial items is maintained.	
Management action plan: The Office agrees with the audit recommendations and will undertake the following actions: (a) establish an Asset Management Committee and perform a physical verification of all assets including projects' assets; and (b) comply with the policies related to missing/stolen assets and regularize the Atlas registry as needed. **Estimated completion date:** July 2018	

2. ICT and General Administrative Management

Issue 10 Weaknesses in fuel and vehicle management processes

Effective fuel management requires well controlled purchase, receipt, distribution and ongoing oversight and reconciliations to determine actual consumption and patterns that warrant investigation. The 'UNDP Programme and Operations Policies and Procedures' stipulate that the Resident Representative may authorize in writing the use of official vehicles for a fixed period, until the arrival of a new staff member's private automobile, or for a maximum period of three months (whichever is earlier) for such purposes, where there are extenuating circumstances. Exceptions to the policy (due to special circumstances like security needs) require pre-approval by the General Operations, Bureau for Management Services.

Fuel management: Fuel consumption for both the Office and projects between 2016 and 2017 was approximately $350,000. At the time of the audit, the procedures to record and reconcile the receipt and consumption of fuel were not adequate and effective. The audit reviewed the Office's fuel consumption and reconciliation for 2017 based on a sample of 15 vehicles and noted inconsistencies or unexplained variances on the average fuel consumption per kilometer for the same vehicles. There was no fuel reconciliation in 2016 and the data (i.e., vehicle log sheets) were not available for the audit team to perform an analysis. Furthermore, fuel consumption for the two generators was not monitored. Due to a lack of data, the audit team was not able to assess the adequacy of fuel consumption.

Fuel management was a recurrent issue in the Office. A similar finding was raised in OAI's Audit Report No. 1048 issued in October 2013.

Vehicle management: The audit noted that staff on fixed-term appointment or temporary appointment contracts for a significant amount of time were still benefiting from the use of the Office's vehicles, even though they had been in the duty station for over three months, during which staff are allowed to use official vehicles. At the time of the audit fieldwork, the Office was not able to provide the audit team with the approval from the Bureau for Management Services for this exception. Furthermore, the audit team noted that written vehicle use authorization letters were coming from the Deputy Operations Manager and not from the Resident Representative, as required by the policy.

Priority	Medium (Important)

Recommendation 13:

The Office should strengthen fuel and vehicle management by:

(a) implementing an effective monthly reconciliation of fuel consumption for each vehicle and generator to reconcile consumption and identify variances warranting further action; and
(b) obtaining the adequate authorization from the Resident Representative and the Bureau for Management Services for the use of vehicles after three months.

Management action plan:

The Office takes note of the recommendation. The following actions will be taken:

(a) systematize monthly reconciliations for fuel tracking through the appropriate account (14057);
(b) establish an administrative note authorizing the use of vehicles outside the hours of service by international staff, beyond three months, taking into account the local context of insecurity and crisis; and
(c) proceed to recover costs for the staff concerned on the basis of a lump sum contained in the SOP of the Office.

Estimated completion date: July 2018

Issue 11 Weaknesses in travel management

The UNDP travel policy provides guidelines that should be applied with respect to the route, mode and standard of accommodation. The analysis leading to the travel decisions, including payment of travel entitlements, must be properly documented. Upon return to the duty station, F10 (travel claim) forms must be completed within 10 business days to document the travel, irrespective of whether a refund or reimbursement is due. The 'UNDP Programme and Operations Policies and Procedures' further state that for any travel, three quotations are required. In case an office is unable to obtain three itineraries to demonstrate a competitive process, adequate justification should be maintained on file. Finally, when warranted by special circumstances, the Chief, General Operations, Bureau for Management Services, may exceptionally authorize a travel upgrade from economy to business class travel with no additional cost to the traveller.

During the audit period, the Office processed 191 travel purchase orders for UNDP and other UN agencies for approximately $440,000. The audit reviewed 15 international travels amounting to $75,436 related to UNDP staff, and noted the following exceptions:

(a) Trip analyses not documented: Trip analyses were not properly documented for all 15 travel cases reviewed. In 14 out of 15 cases, only one quotation was documented. In all cases, there was no evidence that the most direct route (itinerary and cost) was selected. The Office commented that alternate routes were considered. However no documented evidence was available for review.

(b) Travel claims (F10s) not completed: In 7 out of 15 cases, F10s were not submitted to validate travel entitlements.

(c) Daily Subsistence Allowances (DSA) not in compliance with the travel policy: The audit team noted that in four cases, DSA amounting to $1,248 was paid to staff waiting for a connecting flight while travel accommodation and food were provided by the airline. In another case, five staff and implementing partners were paid approximately $1,250 for DSA and terminal expenses because they waited seven hours for a connecting flight. Finally, for one travel case an additional $819 was paid for higher DSA without supporting evidence to justify the amount.

(d) Inadequate justification for business class upgrade: In three cases, staff and implementing partners were upgraded to business class without adequate authorization from the UNDP Bureau for Management Services. In one case, a staff with a medical note from the local UNDP doctor was authorized to make all his travels in business class without the appropriate authorization of the Bureau for Management Services as required by the policy.

Most of the issues were due to a lack of appropriate training and knowledge of UNDP travel policies.

Priority Medium (Important)

Recommendation 14:

The Office should strengthen travel management by:

(a) providing adequate training to staff involved in travel management and requesting that trip analyses with alternate routes are undertaken and properly documented;
(b) completing F10 forms with adequate supporting documents, and submitting them within the required timeframe; and
(c) collecting from the relevant staff members the overpaid travel entitlements and obtaining approval from the Bureau for Management Services for business class upgrade in the future.

Management action plan:

The Office takes note of the recommendation and will take the following actions:

(a) organize a training session for the staff in the Travel Unit and establish an administrative note to share travel policies;
(b) follow-up and monitoring table for F10 submissions will be set up; and
(c) assess the amount overpaid and collect from concerned staff.

Estimated completion date: June 2018

3. Procurement

Issue 12 Procurement functions not efficiently set up

According to the 'UNDP Programme and Operations Policies and Procedures', developing a strategic approach to procurement through appropriate and timely planning, which should include a risk management process, is a key element to the successful and timely acquisition of goods, civil works, or services at a reasonable cost. Workflows and SOPs help the organization be more efficient and effective by defining roles and responsibilities, and by identifying and addressing control weaknesses.

The review of the procurement functions and operating procedures noted the following:

(a) Lack of procurement planning: The Office had not established a consolidated procurement plan in 2016 and 2017, as required. Consequently, procurement activities were undertaken without a strategic vision to help the Office achieve its goals. The lack of planning contributed to creating an environment where procurement was done on an ad-hoc basis or with a sense of urgency, leading to non-compliance with UNDP's procurement rules and regulations, and unsubstantiated direct contracting (refer to issue 14).

(b) Ineffective sourcing, risk management and procurement strategy: The Office had not completed a procurement risk assessment while it operated in a crisis environment and was exposed to various risks including security risks, logistical risks, and sourcing risks. In 10 out of 12 cases of recruitments of individual consultants, and in 21 out of 24 cases of procurement of goods and services, the Office was not able to secure at least three qualified candidates or suppliers, as required by the policies. Despite these known limitations, the Office did not develop a strategy or mitigation measures such as conducting market analysis, establishing rosters of qualified suppliers and consultants, or signing Long Term Agreements for products and services such as travel, external audit services, printing, garage and catering.

(c) Unclear workflow and absence of SOPs: The audit team found no evidence of established SOPs for procurement processes, and roles and responsibilities were not clearly defined. Most procurement processes (i.e., from sourcing/identification of suppliers to awarding of the contracts) were undertaken in a decentralized manner by the Programme Unit or administration and logistics team, without having the minimum procurement training or knowledge. Moreover, these were done without the involvement or oversight from the procurement team. This led to procurement practices that were not aligned with the organization's policies and procedures, and claims from suppliers of unpaid invoices. As an example, one supplier claimed outstanding unpaid invoices of $34,000 for vehicle maintenance services. At the time of the audit field work, the Operations Unit had yet to validate whether services were indeed rendered prior to settling the supplier claims.

These weaknesses were caused by a lack of management oversight over procurement activities and inadequate capacity in the Procurement Unit. The Office explained that a new head of procurement was recruited in April 2017 to strengthen the Procurement Unit's capacity and to strengthen compliance with UNPD procurement principles.

Priority	High (Critical)
Recommendation 15: The Office should strengthen its procurement functions by: (a) completing a consolidated procurement plan and taking into account requisitions from projects, identifying economy of scale, and using the plan as a strategic tool to timely initiate procurement activities; (b) developing effective sourcing practices (rosters, Long Term Agreements, pre-qualification of suppliers and consultants) and risk management based on the outcome of the consolidated procurement plan; and (c) centralizing procurement activities, developing SOPs for procurement processes, and clarifying roles and responsibilities.	
Management action plan: The Office agrees with the audit recommendations and will undertake the following actions: (a) finalize the consolidated procurement plan yearly, taking into account all requisition plans for the Office and the projects, and updating it throughout the year to reflect major changes; (b) put in place a roster for consultants/Long Term Agreements or prequalification of suppliers for goods and services to procure on repetitive basis; and (c) finalize and disseminate the SOP on the procurement process by clarifying the roles, responsibilities and procurement timeframe. **Estimated completion date:** September 2018	

Issue 13 Weaknesses in procurement oversight and vendor management

UNDP requires an independent review of the procurement processes prior to a contract award. All procurement cases above $50,000 and $150,000 should be submitted to the Contracts, Assets and Procurement Committee (CAP) and Regional Advisory Committee on Procurement (RACP), respectively. When Fast Track Procedures are activated for the Office, all procurement cases of $300,000 should be reviewed by the RACP during the same period.

Furthermore, to create and approve new vendors in Atlas the 'UNDP Programme and Operations Policies and Procedures' require the verification of supporting documentation to ensure that the vendor is legitimate and to check for existing vendors to avoid duplicate records. Vendor forms should be signed only by authorized persons.

The following weaknesses were found in the review of procurement activities:

(a) Commitments entered without advice from review committees: The Office awarded four procurement contracts related to election projects amounting to $2.7 million without approval from any procurement review committee. The Office explained that this was due to the urgency of the elections and delays in receiving the required funding. However, the RACP had offered a 48 hour-turnaround review of this procurement case, which was not considered by the Office at the time of awarding these contracts.

(b) Procurement cases not submitted to the relevant procurement committees: Four procurement cases over $150,000 were reviewed by the CAP even though the amounts were above its delegation of authority. The Office failed to submit 10 other procurement cases above $50,000 to the CAP. This was due to a lack of understanding of procurement rules and regulations, and the lack of adequate monitoring of cumulative procurement volume. The Office did not realize that the activation of Fast Track Procedures had no impact of the threshold for CAP submissions.

(c) Weaknesses in oversight exercised by the CAP: There was no evidence of substantive review by the CAP members on any of the 25 procurement cases submitted to them. The Committee's reviews, for instance, did not contain evidence that offers received were the result of a fully compliant process, that sufficient funding existed, or that the risks associated with the procurement process had been assessed and mitigated. This was further exacerbated by the review of cases above their delegation of authority. One case totalling $161,000, which was rejected by the RACP because of significant deficiencies in the process, was later submitted to, and approved by CAP members without clearing the issues noted by the RACP. The audit team did not receive any explanation of this decision by management.

(d) Gaps in the quality of documentation submitted to the RACP: Out of 10 submissions to the RACP during the audit period, 3 were rejected, and 2 were submitted as post facto cases. The remaining five cases were rated by the RACP as poor quality, and needing significant improvements. Weaknesses included: direct contracting with justifications not in line with Financial Rules; the Office's inability to substantiate fairness, transparency or best value for money principles; and the lack of understanding of procurement processes.

(e) Lapses in vendor management: Out of 28 randomly sampled vendors that received payments from the Office during the audit period, 18 did not have any supporting documentation, such as a signed standard vendor form or evidence of a contractual relationship to validate their legitimate existence and substantiate their creation in Atlas. In addition, 4 out of 10 vendor records had missing supporting documentation, such as identification or a legal registration document to identify the vendor.

    Furthermore, Atlas data as of November 2017 showed nine active vendors, each of which had two different vendor identification numbers, and eight other vendors had the same bank account number as another vendor.

These weaknesses were caused by an ineffective oversight mechanism, and unclear roles and responsibilities of CAP members, who were nominated late in 2017 and without terms of reference.

Ineffective oversight over procurement practices may lead to unfair procurement practices and financial losses for the organization. Awarding contracts without the approvals of the relevant procurement review committees could also expose the organization to reputational risks.

The lack of due diligence during vendor creation and file management may lead to the creation of fictitious vendors or making payments to vendors without legal registration in the Country, which may in turn negatively impact the organization's reputation.

Priority	High (Critical)
Recommendation 16: The Office should improve its oversight mechanism over procurement activities by: (a) ensuring that all procurement cases are submitted to the appropriate procurement review committees for approval before awarding contracts; (b) clarifying roles and responsibilities of Contracts, Assets and Procurement Committee members to ensure that procurement cases are adequately reviewed; and (c) exercising due diligence when creating vendors in Atlas, and periodically reviewing the vendor database to ensure no duplicate or invalid records.	
Management action plan: The Office agrees with the audit recommendations and will undertake the following actions: (a) revitalize the Contracts, Assets and Procurement Committee in order to hold a weekly meeting to analyse all procurement files, and follow up on vendors cumulative procurement volume in order to avoid the post facto submissions of procurement cases; (b) systematize the submission of files to the RACP/ACP based on thresholds prescribed in the 'UNDP Programme and Operations Policies and Procedures'; and (c) set up a checklist of documents required for the establishment of the vendors / establish a spot check of vendors by the Oversight Unit to review exceptions in vendor data such as duplicate vendor identification or different vendors with same bank account number. **Estimated completion date:** December 2018	

Issue 14 Deficiencies in contract management

UNDP procurement policies require that all procurement contracts be awarded on the basis of effective competition and of a fair selection process. The 'UNDP Programme and Operations Policies and Procedures' further require that purchase orders, which represent legally binding commitments entered into with third parties for the delivery of goods and services procured by UNDP, be raised for all purchases above $2,500. Direct contracting is a procurement method that allows awarding of a contract without competition. The 'UNDP Programme and Operations Policies and Procedures' provide that offices may only use this method when it is not feasible to undertake a competitive bidding process, and when proper justifications exist. UNDP's Financial Rules provides only nine permissible justifications for direct contracting. Further, offices should maintain records to support assessments of how best value for money was achieved through direct contracting.

The review of the management of individual consultants, civil works contracts and other suppliers of goods and services disclosed shortcomings in the procurement process:

(a) <u>Procurement of goods and services incorrectly justified</u>
Out of 16 vouchers, 11 amounting to $309,000 were based on the direct contracting modality, which the Office incorrectly justified by the activation of Fast Track Procedures during elections. While the activation of the Fast Track Procedures provides some flexibility, such as increase of the low value procurement threshold from $2,500 to $5,000, it does not include the use of direct contracting, as this falls under UNDP Financial Rule121.05.

(b) <u>Lapses in the management of individual contracts</u>
Six out of 12 cases of individual contracts reviewed totalling $219,000 were based on the direct contracting modality. The justifications for direct contracting were weak and unsubstantiated, and the reasons for selecting this modality did not adhere to the prescriptions of UNDP Financial Rule121.05. For instance, the selection did not justify the reasoning as to why only those consultants could undertake the required assignments. Further, the audit noted that there was also no comparison or analysis leading to the justification of best value for money.

(c) <u>Gaps in the management of civil works contracts</u>
All nine civil works contracts sampled totalling $1.5 million had completion delays of up to one year. The Office explained that the delays were due to the political crisis situation. These contracts were not amended to cover the extended period caused by the crisis. Consequently, the Office made milestone payments without valid agreements.

In four cases out of six, advance payments specific to the execution of civil works contracts were not covered by a bank guarantee, as required by the policies.

Finally, no evaluation was done for any of the two fully executed civil works contracts, to document the quality of the work, assess compliance with the specifications and timely completion of civil works.

These issues were caused by inadequate monitoring and oversight of contract management in the Office, and a lack of understanding of the arrangements under the Fast Track Procedures.

Non-adherence to UNDP Financial Rule 121.05 may lead to the improper procurement of goods and services, which could affect UNDP's reputation. Furthermore, not hiring the best technically qualified candidates could also have a negative impact on programme results. Inadequate management of civil works contracts could leave the organization unprotected against claims from suppliers.

Priority	High (Critical)
Recommendation 17: The Office should strengthen its contract management oversight by: (a) undertaking competitive procurement processes for all procurement of goods and services above $2,500 and properly justifying any exceptions; (b) properly justifying adherence to Financial Rule 121.05 when recruiting consultants; and (c) making payments based on valid civil works contracts and ensuring bank guaranties are obtained for advance payments to the suppliers, and undertaking suppliers' evaluation at the completion of the civil works.	

Management action plan:

The Office agrees with the audit recommendations and will undertake the following actions:

(a) ensure compliance with procurement policies and procedures, and establish an administrative note clarifying the procurement rules and procedures based on the appropriate thresholds;
(b) provide additional guidance in the SOPs on the management of the individual consultants, and ensure compliance with the guide; and
(c) update the SOPs on the processing of payments related to construction contracts.

Estimated completion date: December 2018

4. Human Resources Management

Issue 15 Incorrect payments of danger pay allowance and inadequate recovery of salary advance

In the Country, payments of danger pay allowance came into effect on 1 April 2012 following the political crisis and dangerous conditions prevailing in the Country, and was payable to both international and local staff. For internationally recruited staff members, a danger pay was set at $1,600 per month.

According to the International Civil Service Commission (ICSC), danger pay is not payable in conjunction with annual leave or any type of special leave. Further, payments are also not authorized if more than seven calendar days are spent away from the duty station on official travel, including weekends and holidays falling during that period.

Advances granted against future salaries are to be provided to staff members under very specific circumstances and conditions and should be recovered in full within a specified time through regular payroll deductions. If a staff member separates from service, any outstanding part of an advance is recovered in full against his/her final emoluments.

(a) Unjustified danger payments

Between January 2016 and September 2017, the Office paid approximately $650,000 to national staff and $790,000 to international staff for danger pay.

The audit team's review of payments of danger pay allowances disclosed that staff members were inaccurately being paid allowances even though they were on annual leave and away from the duty station for more than seven calendar days , including weekends falling during that period. n.

The audit reconciled the danger payments against the annual leave data and concluded that the Office overpaid danger pay allowances of approximately $18,900 in 2016 and $19,900 until October 2017.

This practice had been in effect since 2012 and was due to a misinterpretation of the ICSC policy by the Office. Non-adherence to ICSC's policy in danger pay allowances could lead to abuse of such benefits, and is resulting in higher financial costs for the organization.

(b) Inadequate recovery and monitoring of salary advances

The Office did not properly monitor the recovery of salary advances between 2012 and 2015. Total advances amounting to $18,127 were not recovered from separated staff members. In addition, the salary advance account had a negative balance of $15,118.

This was caused by a lack of oversight in monitoring of salary advances.

Priority	Medium (Important)
Recommendation 18: The Office should enhance controls when paying danger pay allowances and salary advances by: (a) not paying danger pay allowances when the staff member is on annual leave and away from the duty station for more than seven calendar days; (b) recovering all identified 2016 and 2017 overpayments of danger pay allowances as well as salary advances from relevant staff; and (c) establishing a mechanism to monitor recovery of salary advances.	
Management action plan: The Office takes note of the recommendation. The following actions will be taken: (a) finalize and disseminate a note on the new procedures relating to danger pay; (b) proceed with the recovery of overpayments from the concerned staff; and (c) put in place a quarterly mechanism for monitoring advances to staff as well as repayments. **Estimated completion date:** June 2018	

[redacted]

[**NOTE**: This section has been redacted as it is deemed to contain sensitive information.]

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D. United Nations Leadership and Coordination

Issue 17 Lapses in management of Resident Coordinator's Office budget

Resident Coordinator Office (RCO) budgets should be established in Atlas in accordance with the United Nations Development Operations Coordination Office (DOCO) guidelines and based on the United Nations Development Group cost-sharing mechanism. Country Offices are required, to upload every year, project budget balance and transactional detail reports generated from Atlas into the DOCO Information Management System.

The review of the RCO budget management and annual work plan revealed the following:

(a) Inadequate RCO budget monitoring: The RCO budget was not periodically reviewed and reported on as required by the DOCO guidelines. For 2016, no transaction details or project budget balance had been uploaded into the DOCO Information Management Systems.

(b) Ineligible expenses on the RCO's budget: A review of the RCO's Atlas expense reports showed transactions of at least $75,000 not related to the RCO operations and that were approved by staff with no delegation of authority. At the time of the audit, the RCO was unable to provide the audit team with a reconciliation of these expenses.

The issues above were mainly caused by a lack of adequate training and by an absence of periodic monitoring on the use of coordination expenses and budget.

Ineffective management of the RCO budget could lead to inaccurate expense reporting to the United Nations Development Group and Member States.

Priority	Medium (Important)

Recommendation 20:

The Office should improve the management of the Resident Coordinator's Office budget by:

(a) proving adequate training to the Resident Coordinator's Office staff on budget allocation and enhancing oversight on expenses; and
(b) reconciling all expenses and making appropriate adjustments to the Resident Coordinator's Office budget.

Management action plan:

The Office takes note of the recommendation. The following actions will be taken:

(a) organize a training session on project budget tracking in Atlas at the coordination level; and
(b) finalize the necessary reconciliations and adjustment on the Resident Coordinator's Office projects.

Estimated completion date: September 2018

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.

- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.